

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 2, 2007 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Don Moler, League of Kansas Municipalities
Mark Tallman, Kansas Association of School Boards
Representative Pat Colloton
Lisa Benlon, American Cancer Society
Richard Cram, KDOR
Representative Pat George
Representative Rob Olson
Mike Armstrong, Private Citizen, (written testimony)

Others attending:

See attached list.

HCR 5006 - Constitutional Amendment to limit appraised valuation increases on real or personal property used for residential purposes owned by persons 65 years of age.

The Chairman re-opened the hearing on **HCR 5006** and reminded members that all proponents were heard on January 31, and today they would continue hearing the opponents.

Don Moler, League of Kansas Municipalities, testified that cities understand the desire to limit the tax burden on citizens, however **HCR 5006** is ill advised for three reasons: 1) Because a limitation on natural valuation increases logically, it results in less tax revenue being collected from one group of properties; 2) The amendment would further erode the tax base; and 3) Would create a valuation system that results in fictional and unequal values (Attachment 1).

After discussion the Chairman requested that staff provide a summary on the mechanics of the Local Ad Valorem Tax Refund (LAVTR). Rep. Siegfried made a request of the PVD staff to provide a chart with a compilation predicting the level of LAVTR return or restoration necessary to adjust to the data proposed in **HCR 5006**.

Mark Tallman, Kansas Association of School Boards, said Kansas does have a property tax problem, however they believe that **HCR 5006** attempts to deal with symptoms, not the real cause. He explained spreadsheets on: 1) School district expenditure as a percent of Kansas personal income; 2) Economic Impact of Kansas Schools; 3) Selected Financial Data and 4) Number of certified employees of USDs. He called attention to an Issue Brief - *The High Cost of High School Dropouts - What the Nation pays for Inadequate High Schools* that was part of his testimony. He concluded by stating the solution to rising property taxes is not **HCR 5006**, but instead, a tax policy that provides a better mix of other revenue sources to offset reliance on property taxes. What is needed is a comprehensive examination of all state and local tax policy (Attachment 2).

The Chairman thanked Mr. Tallman for his testimony and handouts. He asked that he participate in the development of a new chart, using his chart entitled *School District Expenditures as A Percent of Kansas Personal Income* as the foundation. He requested that additional columns be added for data from the State General Fund, cities and counties. This new compilation would show the actual tax shifts and could help determine benchmarks.

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The Chairman closed the public hearing on **HCR 5006**.

HB 2154 - Sales tax exemption for the American Cancer Society, Inc.

Chris Courtwright, Legislative Research Department, briefed the committee on **HB 2154**, a new sales exemption for both sales and purchases of the American Cancer Society, Inc. The American Cancer Society would be added to a list of other 501 (c) (3) organizations that have these existing exemptions.

The Chairman opened the public hearing on **HB 2154**.

Representative Pat Colloton, testified that the bill would support the outstanding work of the American Cancer Society in education, research, and patient care. She introduced Lisa Benlon, a former state representative, to explain details of the bill. She urged the passage of **HB 2154** (Attachment 3).

Lisa Benlon, American Cancer Society, said that their organization had encountered resistance from food vendors who donate food for fund-raising efforts because they are required to pay taxes on the food they prepare to give away. She said the American Cancer Society would save approximately \$60,000 and could offer an additional 4 areas of service with those savings (Attachment 4).

Richard Cram, KDOR, acknowledged the good work done by the American Cancer Society, as well as many organizations that serve community needs, however he reminded members of past remarks made by Secretary Wagnon regarding the current policy of granting exemptions. He referred to a recommendation made during the 2005 interim, in which the standing tax committees would develop criteria with which to evaluate all future requests for sales tax exemptions. He said that if the bill goes forward, the Department suggests that the exemption for sales made "by or on behalf" of the organization be removed from the proposal. That phrase makes the policing of those exemptions difficult, and creates the potential to wrongfully claim exempt sales on behalf of an organization (Attachment 5).

Seeing no other conferees the Chairman closed the public hearing on **HB 2154**.

HB 2155 - Concerning sales taxation; relating to exemptions; purchase of motor vehicle in certain circumstances.

The Chairman opened the hearing on **HB 2155** and asked Representative George to explain the bill.

Representative Pat George, said that there are occasions when a consumer is subject to double taxation. This bill provides a refund when a motor vehicle is purchased to replace another that was stolen or destroyed. He described several scenarios in which a consumer was subject to double taxation and he urged passage of **HB 2155** (Attachment 6).

Representative Rob Olson, said that he stood before the Taxation Committee on behalf of his constituency and all Kansans who have been victims of the state's current double taxation policy (Attachment 7). He said that Kansas' system of taxation and government in general is one that is supposed to be fair and supportive, and during a time of misfortune, such as having your vehicle destroyed or stolen, government should not burden people with an extra tax after their traumatic instances. He called attention to the written testimony of Mike Armstrong, Private Citizen, who wrote about his experience concerning this policy (Attachment 8).

Discussion followed regarding possible legislation that would require insurance companies to pay the sales tax on destroyed or lost vehicles. A request was made to determine the liability of insurance companies to pay the sales tax. There was also a question regarding the percentage of insurance companies that currently pay that tax.

Richard Cram, Department of Revenue, appeared in opposition to the proposed legislation. He said their research shows that most insurers reimburse sales tax as part of a settlement agreement on a wrecked vehicle. **HB 2155** would shift the sales tax burden on purchases of replacement vehicles from the insurer to the state. He cited several reasons why the exemption for replacement is problematic and briefed the

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committee on the fiscal impact of the bill. If the bill goes forward, Mr. Cram suggested 4 changes and amendments for the Committee's perusal (Attachment 9).

Seeing no other conferees the Chairman closed the hearing on **HB 2155**.

The Chairman returned to **HB 2031** the Franchise Bill, and called for Committee discussion.

Representative Carlson made the motion that **HB 2031** be passed out favorably. Representative Siegfried seconded the motion.

Representative Holland made a substitute motion to introduce the Franchise tax portion of the Governor's package, that would lift the floor from \$100,000 to \$1,000,000. Representative Dillmore seconded the motion.

A memorandum on the *SGF Receipts, Expenditures and Balances, FY 2006-2010* was distributed (Attachment 10). A balloon was distributed for the substitute motion (Attachment 11).

After discussion Representative Holland closed his substitute motion. The motion failed 12-11.

Representative Treaster made a substitute motion to table **HB 2031**. Representative Davis seconded the motion. The motion failed.

Representative Carlson closed his motion to pass **HB 2031** out favorably. The motion passed.

The Chairman adjourned the meeting at 11:00 a.m. The next meeting is February 6, 2007.